



## Warning: Has Air Canada (TSX:AC) Flown Into the No-Fly Zone for Investors?

### Description

**Air Canada** ([TSX:AC](#))(TSX:AC.B) has been on a [heck of a run](#) over the last several years with the stock posting multi-bagger gains for those investors who bagged the bargain when it traded at a ridiculously low single-digit P/E multiple.

Given Air Canada's relatively poor reputation with customers and its tendency to blow up when heading into a recession, it's not a mystery as to why many saw Air Canada and its dirt-cheap stock as some sort of value trap.

In many prior pieces, I urged investors to [back up the truck](#) on the name even though Air Canada's rally seemed overextended at the time. I shot down claims that Air Canada was a value trap, noting that the entire airline industry was facing a paradigm shift.

The airlines were no longer ticking time bombs that would crumble like a paper bag at the first signs of sustained economic weakness.

Warren Buffett had his fill of U.S. airlines, and his personal moves should have been a significant clue to investors that things would be different for the airlines this time around. Buffett used to despise the airlines as an investment.

They weren't really investible given their highly cyclical nature and how things could go out of control when times become tough.

How times have changed.

Not only was it becoming economical to run an airline due to improvements to operational efficiencies (Air Canada did a stellar job with investment initiatives to reduce long-term costs), technological enhancements and favourable commodity moves made the airlines unstoppable investments.

Today, the Canadian airline industry is facing consolidation, with **WestJet Airlines** and **Air Transat** to be absorbed by behemoths.

Why the recent bout of M&A? The deep-pocketed giants out there recognize the long-term value to be had within the sector and they want to act now before the price of admission goes up.

Air Canada recently sweetened the pot in its attempt to acquire Air Transat, Canada's third-largest airline to better appease to shareholders who weren't fans of the Air Canada's original takeover offer.

Should Air Canada ultimately scoop up Air Transat for \$18 per share, which I think would be an absolute steal, Air Canada may have much more room to soar over the long haul.

Although Air Canada is no longer the bargain it used to be (when shares traded at around three times earnings), the stock is still attractively valued given the fundamental improvements that have been made over the years.

The stock trades at around 12 times next year's expected earnings and 4.9 times EV/EBITDA. While that's not expensive by any means, just don't expect the same magnitude of momentum posted in past years.

The stock's upside correction has already happened, but the name can still deliver outsized returns relative to the risks taken on.

## CATEGORY

1. Investing
2. Stocks for Beginners

## TICKERS GLOBAL

1. TSX:AC (Air Canada)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Investing
2. Stocks for Beginners

## Date

2025/09/16

## Date Created

2019/08/14

## Author

joefrenette

default watermark